greater new orleans inc.
The Regional Economic Alliance

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Testimony of Mark Drennen
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Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee
of the House Financial Services Committee

"Stabilizing Insurance Markets for Coastal Consumers"

On behalf of Greater New Orleans, Inc. (GNO, Inc.), the economic development organization for 10 parishes in the New Orleans region, I would first like to thank Congressman Richard Baker of Louisiana and his colleagues from the Financial Services Sub-Committee for holding this special hearing to address this vital issue of insurance instability caused by the damaging hurricanes in recent years.   We hope that through these Congressional deliberations that awareness can be raised about the magnitude of the problem and the impact on coastal communities, and ultimately that federal policy solutions can be considered for short term and long term interventions desperately needed.

In 2005, Hurricanes Katrina, Rita and Wilma created an obstacle course of challenging road blocks for the businesses struggling to rebuild as well as new ones trying to invest in the greater New Orleans region in Southeast Louisiana and our counterparts in Southwest Louisiana. The same challenges of economic recovery are being felt throughout the Gulf States. In our region, the first major obstacle was levee protection and community safety, then it was the lack of housing, then it was the disruption of healthcare services and the untenable utility rate increases and now the critical issue of access and affordability of insurance for both homeowners and businesses—the latest impediment to the recovery effort as we try to bring back a population loss of 300,000, over 200,000 homes and 18,000 businesses.

As we just marked the anniversary of Hurricane Katrina on August 29, one of the major issues of increasing concern in recent months is the runaway costs of commercial insurance for those businesses that can even find insurers at all for property and casualty coverage. Businesses are stressed with the reality brought forth post-Katrina that many insurers are no longer writing new policies and those renewing policies are raising premiums and deductibles to unprecedented levels, putting the cost of coverage out of reach for many. In repeated cases, annual premiums have increased five fold and deductibles as much as ten fold. Thus, for companies willing and capable of paying the high premiums to maintain property coverage, there is still the financial exposure of deductibles that may not be met if another hurricane type event is triggered.

The insurance access-cost issue is affecting all sized companies in all sectors, including real estate development, housing construction, multi-family rental projects, the tourism industry and banking just to name a few. Convention events are at stake, apartment units can not be refurbished, and lenders are having to bend some long standing insurance requirements in order to maintain commercial clients and absorb some of the risk. Insurance is now holding up many of the development deals that were originally attracted by the federally enacted GO Zone incentives. Without insurance solutions, such incentives will not realize their potential for economic recovery and investment.

The insurance industry justifies the increases based upon revised risk assessment computer models that attempt to predict future losses due to catastrophes. According to the Insurance Information Institute, 8 out of 10 of the most expensive natural disasters in US history occurred within the past four years. The National Hurricane Center predicts more named hurricanes in the next 10 to 15 years. Insurers are utilizing this information to significantly adjust premium and deductible rates and businesses are suddenly absorbing the costs or forced to opt out of purchasing insurance all together. This creates a short term insurance crisis that may be eased in the future if the storm seasons are quieter than predicted and the market dynamics respond favorably. In the interim, in order to retain and build current economies, the federal and state governments must partner with the private sector to devise temporary and permanent strategies to address ways to make insurance stabile and accessible for businesses who operate in the coastal areas of the United States, where according to the National Oceanic and Atmospheric Administration (NOAA) is currently home to a combined population of 153 million people, 53 percent of the nation's total population. NOAA also predicts that by the year 2008, coastal county population is expected to increase by approximately 7 million, a trend that has tremendous policy implications.

After hearing countless insurance war stories from business and industry in the greater New Orleans region, GNO, Inc. quickly pulled together an Insurance Task Force with representatives of the insurance industry, real estate, banking and other private sector leaders from the community. The goal is to develop a comprehensive strategy to address the insurance issues for businesses in the surrounding 10 parish region. The task force will approach the problem by developing three tracks: Federal Relief and Intervention, State Policy and Legislation, and Private Sector Initiatives. The task force plans to meet with insurance companies and their CEOs throughout the US not currently doing business in the state and will work to attract more supply and competition into the local insurance market. The group will also look at potential solutions that can be aligned with other advocacy groups working to increase access and reduce the cost of commercial property insurance. Lastly, the task force will work at the state and federal level toward public policy initiatives to provide relief to hurricane impacted businesses already coping with a high cost environment due to labor pressures, increased utilities, housing rates, tight supplies, and other negative market factors.

The GNO, Inc. Insurance task force is in its early stages of policy formation but there is a growing list of legislative options for consideration. We are trying to benchmark best practices from other states, such as wind pools and reinsurance programs, as well as identify mitigation policies that will reduce risks. Our Task Force will assess what practices would influence the supply of insurance companies and policy writing activity. Although GNO, Inc. is a regional organization, our task force will join forces with other states and stakeholders where appropriate to consider short term federal relief to bridge the insurance gap in the short run until more permanent solutions can be developed and implemented through government actions and private sector response.

In closing, Greater New Orleans, Inc. urges the White House, Congress and the Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee of the House Financial Services Committee to come together to provide short term measures that can provide the businesses in the coastal states insurance accessibility while we all continue to work toward longer term strategies at the state and federal levels. Congress has addressed other post-Katrina rebuilding issues such as housing, infrastructure and economic development by providing targeted grant resources like the Community Development Block Grants (CDBG funds) based on sound needs and sound allocation of resources. In this same spirit, GNO, Inc. asks this committee to closely examine the immense insurance needs and consider additional resources on a short term basis for the sake of comprehensive recovery in the Gulf Coast states and for the sake of insurance stabilization for all coastal states faced with the continued threat of catastrophe to lives and property. Hurricane Katrina devastated thousands of homes, businesses, families and employees. Congress has done much to provide resources for the areas of greatest need. Finding an interim insurance solution is the next area of great need in this long rebuilding effort.

GNO, Inc. would like to offer its expertise, energy and resources to Congressman Baker and the committee, with a firm commitment to work with he and his staff to narrow the federal relief options for consideration this Congressional session, which is ambitious but necessary from the perspective of those of us on the ground. We would also like to offer to testify before the committee in subsequent hearings regarding our Insurance Task Force's early findings and recommendations.

Thank you for your time and consideration.

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Appendix I - Post-Hurricane Case Studies of Business Insurance Issues

a) Commercial Printer with $7million of property. Expiring premium of $25,000. Expiring policy included equipment breakdown coverage and Business Interruption for up to 12 months. Very small wind deductible. Renewal required several policies with a wind deductible of 5% ($350,000), significantly reduced Business Interruption, Significantly reduced equipment breakdown coverage and double premium using four policies instead of one.

b) Property insurance for a large shopping center renewed where the premium went from $70,000 to $250,000 and the wind deductible went from 1% to 5% ($1,700,000 deductible up from $350,000 deductible.)

c) A local golf and country club paid through a business owners package approximately $60,000 in 2005. This included a $10,000 deductible per all risk. The renewal for the property alone was $100,000 and included $250,000 deductible for a named storm, a $100,000 deductible for any other wind damage and a $25,000 deductible for all other perils.

d) A fine dining restaurant located in the French Quarter paid $27,000 for their property insurance in 2005 which included a 2% wind/hail deductible with a minimum of $25,000. The 2006 renewal for the property with the same limits is $242,000 and includes a 5% wind/hail deductible.

e) French Quarter Hotel with Property Values at $3,000,000. The expiring premium was $17,000 and included a windstorm deductible of $25,000. Renewal policy had a premium of $84,000 and wind deductible increases to $400,000.

f) Door Manufacturer – Total Property Values of $5,000,000 including Business Interruption. Expiring premium $26,000. Renewal premium from incumbent carrier was $54,000 with a $750,000 windstorm/hail deductible. Alternative quotation was produced at an $83,000 premium with a 5% ($250,000 deductible).

g) Landscape Contractor with a $400,000 property exposure and an $800,000 business interruption exposure. All buildings are frame. The contractor could not find a single market to insure the buildings. The insured had to buy his wind/hail insurance through the State residual plan, Citizen's Insurance Company. As a result he is now self insured for any business interruption arising out of a wind event since Citizen's does not offer such coverage.

h) Ship Supply Company – Total insurable values of $9,500,000. Deductible increases from $50,000 aggregate last year to 5% ($475,000) this year. The company was too large to qualify for the Citizens plan and has too great of a business interruption exposure to move to Citizens plan. Cost to buy the windstorm deductible down to $100,000 was $80,000 ($375,000 of coverage).

i) Healthcare provider with over $1.5 billion property value. Previous property policy had a wind limit of $200 million. Total premium was about $1.3million. Renewal had a wind limit of $25 million at about the same premium. The provider secured another $50 million of coverage for $5 million of premium.

j) Local hotel owner and operator faced major changes when renewing coverage in 2006. Last year, asset coverage was $150 million (including wind), the annual premium was $380,000, and there was a one percent deductible. At renewal in 2006, coverage was still offered at $150 million, but with significant changes. First, the premium increased to $720,000. Second, the deductible increased to five percent. Third, the wind coverage was specifically limited to $25 million. When the lender tried to force an additional $50 million of wind coverage, the best deal in the market for $50 million in coverage would cost an additional $10.8 million ($20 per $100 of coverage). The company is currently in default of its loan agreement with its lender and is in active negotiations regarding this issue.

k) Local manufacturing company experienced dramatically higher quotes and lower coverage at renewal of its insurance. The prior structure was for $26 million in primary asset coverage at an annual premium of $438,000 per year. In addition, there was a secondary umbrella policy for $73 million with an additional cost (unsure of cost of last layer). Quotes came back at $1.285 million for $11 million in primary coverage. In addition, certain insurance companies shortened their policy terms from 12 months to quarterly, and even monthly. The deductible was increased from 1% to 5%. Also, the umbrella coverage is based on the primary coverages being in place. Without primary coverage, the last layer of $73 million is unavailable. The company decided to use State Department of Insurance, Rule 23 to force the insurance companies to maintain prior terms and conditions until December 31, 2006. After December 2006, the company expects to be subject to dramatic changes in premiums and coverages.